

# Returning FSA Funds

## CHAPTER 4

*Here we provide instructions for returning FSA funds for reasons other than the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment. For information about the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment see Volume 5.*

### RETURNING FUNDS

There are a number of reasons why a school may have to return funds to the Department, including:

- ♦ the return of FSA funds required when a school must correct an overaward or an overpayment, and the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (the return of funds when a student withdraws or otherwise ceases attendance is discussed in *Volume 5*);
- ♦ having FSA funds on hand with no expectation they can be disbursed to other eligible students within three days (excess cash);
- ♦ owing the Department for expenditures disallowed during a program review or audit;
- ♦ having earned interest on its federal funds (other than in its Perkins account) in excess of \$250.00; and
- ♦ holding large Federal Perkins Loan cash balances on hand (COH) on the Fiscal Operations report and Application to Participate (FISAP).

Schools can return money to the Department (including excess interest) using the **electronic refund functionality in G5**. For questions or more information on returning funds through G5, please contact the G5 help desk at 1-888-336-8930.

#### When funds are considered to have been returned for a student who fails to begin attendance

The Department considers a school to have returned FSA funds timely if the school:

1. deposits or transfers the funds into its federal funds account no later than 30 days after the date that the school became aware that a student will not or has not begun attendance;
2. initiates an electronic funds transfer (EFT) no later than 30 days after the date that the school became aware that a student will not or has not begun attendance; or
3. issues a check no later than 30 days after the date that the school became aware that a student will not or has not begun attendance. An institution does not satisfy this requirement if
  - the school's records show that the check was issued more than 30 days after the date that the school became aware that the student will not or has not begun attendance; or
  - the date on the cancelled check shows that the bank used by the Department endorsed that check more than 45 days after the date that the school became aware that the student will not or has not begun attendance.

**Recommendation**

Except in very unusual circumstances or when returning funds from an audit or program review, schools must return funds electronically using G5.

For additional information on returning funds via G5, refer to the G5 website at [www.g5.gov](http://www.g5.gov), or call the G5 Hotline at 1-888-336-8930 for assistance.

**Returning funds by depositing them in a school account**

Returning funds in a timely manner is one of the factors examined by the Department in evaluating a school's financial responsibility. In addition to the general requirement for schools to return funds, the Department sets specific time frames for students who do not begin attendance and those who begin attendance but cease attendance before completing the period for which they have received Title IV funds. One way for schools to satisfy the requirement is to deposit the funds in the account in which the school keeps its federal funds.

**Returning funds by depositing them in a federal funds account**

For funds obtained from the Department, a school meets the Return requirement if it deposits or transfers the funds into its federal account no later than 45 days after the school determined that a student withdrew or received an overpayment the school was responsible for returning. (Also see *Volume 5*.)

If a school has not drawn down federal funds or has made disbursements that exceed the amount the school has drawn, the school does not need to deposit funds in its federal account. Of course, the school's accounting records must show that school funds were used to credit the student's account.

**Returning Funds FADL and FPRD funds by Check**

If an FADL or FPRD Letter requires that you return FSA funds by check, you must:

1. make the check payable to the U.S. Department of Education; and
2. include the following with your payment:
  - the amount of the liability
  - school's D-U-N-S number
  - the school's 9 digit tax ID number
  - the program review or Audit Control number.

**Return of Title IV funds when a school does not maintain a separate federal bank account**

The Department considers a school that maintains FSA funds and general operating funds in the same bank account (commingles) to satisfy the requirement that it return unearned funds on a timely basis if:

- ♦ the school maintains subsidiary ledgers for each type of funds commingled in that account that clearly show how and when those funds were used and the subsidiary ledgers are reconciled to its general ledger,
- ♦ the subsidiary ledger for each FSA program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of FSA program funds received and disbursed by the school, and
- ♦ the school updates the relevant subsidiary ledger accounts in its general ledger no later than 45 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to an FSA program fund subsidiary ledger account and a credit to the school's operating fund subsidiary ledger account. The date of the return is the date this transaction is posted to the school's general ledger.

## WHEN FUNDS ARE CONSIDERED TO HAVE BEEN RETURNED

The Department considers a school to have returned FSA funds when the school has:

- ♦ deposited or transferred the funds into its federal funds account; or
- ♦ initiated an electronic funds transfer (EFT) to the Department.

## RETURNING FUNDS FROM AN AUDIT OR PROGRAM REVIEW

If, as a result of a program review or audit, a school is required to repay FSA funds, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to the Bank Change and Receivables Group where an account receivable is established for the school. The Department will then, through its billing agent, bill the school for the disallowed expenditures, accrued interest, and penalties, if any. Payment instructions will be included with the bill.

### Clarification

- ♦ If the total liabilities owed to the Department are less than \$1,000, the school is instructed to make any required adjustments in COD and return funds through G5.
- ♦ If the total liabilities owed to the Department are \$1000 or more but less than \$100,000, the school returns the funds by check to a lock box in St. Louis, Missouri.



**Payment and/or adjustments made via G5 will not be accepted as payment of this liability.** Before sending its payment, the school must make any required adjustments in COD as required by the applicable finding(s). Upon receipt of the school's payment, the Department will apply the funds to the appropriate G5 award (if necessary).

- ♦ If the total liabilities owed to the Department are \$100,000 or more, the school returns the funds through its financial institution via electronic transfer (FEDWIRE).

A school may not reduce amounts reported as net drawdowns on its G5 Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any FSA funds returned for this purpose will not be credited to a school's G5 account.

Unless otherwise directed by the FADL or FPRD letter, a school may not adjust its prior-year FISAPs or Federal Pell Grant/Iraq and Afghanistan Service Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review.

Remember that, unless specifically instructed by the Department, a school should always repay funds using the appropriate function in G5.

### When funds are considered to have been returned for a student who fails to begin attendance

For a student who does not begin attendance, the deposit or transfer of funds, the EFT, or the issuance of the check must occur no later than 30 days after the date that the school became aware that a student will not or has not begun attendance.

An institution does not satisfy this requirement if:

- the school's records show that the check was issued more than 30 days after the date that the school became aware that the student will not or has not begun attendance; or
- the date on the cancelled check shows that the bank used by the Department endorsed that check more than 45 days after the date that the school became aware that the student will not or has not begun attendance.

### Returning DL funds that can't be disbursed within three days

A school that has drawn down more funds than it can disburse due to changes in a student's status between the drawdown and disbursement date would need to return the funds if they could not disburse them within the allowed time frame.

However, if the school expects student will reestablish eligibility, such returns would not need to be offset by reductions in the student's record in COD. The school would only need to modify the expected disbursement date.

## DOWNWARD ADJUSTMENT OF FSA GRANT DISBURSEMENT RECORDS AND DIRECT LOAN DISBURSEMENT RECORDS REQUIRED

**Returns of FSA Grants funds (except FSEOG and Iraq and Afghanistan Service Grants), other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students' records in COD.** Likewise, all returns of Direct Loan funds must be offset by downward reductions in students' records in COD.

In addition, when all or a portion of a Direct Loan is cancelled (either because the borrower requested the cancellation within the regulatory time frames or to comply with statutory or regulatory requirements), the school must make the appropriate adjustment to the student records in COD.

**All returns of FSA Grants and Direct Loan funds previously disbursed (unclaimed credit balances) should be made through the G5 system.**



### Direct Loan funds may be reawarded

Direct Loan funds are not student-specific; they are program year-specific. This means that when all or a portion of a loan for a student is cancelled, the cancelled loan funds can be disbursed to another eligible student who is receiving a loan for that same Direct Loan program year.

If the funds cannot be disbursed within the regulatory time frames, they must be returned to the Department via G5.

## RETURNING DIRECT LOAN FUNDS

If a school is required to return DL funds to comply with a regulatory or statutory requirement, even if more than 120 days have elapsed since the disbursement date, the school must return DL funds through G5. The school returns DL funds to the Department following the same procedures the school follows when making other G5 refunds/returns.

All Direct Loan funds that are not disbursed to student or parent borrowers within three business days from the date that the drawdown is received (or within seven calendar days in certain circumstances) must be returned to the Department in accordance with the cash management regulations at 34 CFR 668.166.

### Removal of Direct Loan Data from COD

Direct Loan data is usually available for two years after the end of the award year. Once a closed year's data has been removed from the production environment: All records for the closed years that are submitted to the COD System will be rejected. Schools will receive COD Edit 996 (Invalid Value). Data for the closed years will not be available via the COD Website. The closed years will not appear in dropdown menus on the COD Website.

However, Direct Loan funds are not student-specific, but are school, program, and award year-specific. This means the funds can be disbursed to other eligible students who will be receiving Direct Loans for the same award year at the same school if the school can disburse the funds within the three-day limit. If the funds cannot be disbursed within the regulatory timeframes, they must be returned.

To ensure the most accurate and timely processing, a school should refund cash electronically via the G5 Web site, unless instructed otherwise. If a school needs assistance in making electronic refunds, it should contact the G5 Hotline using the contact information below.

**Schools should not use drawdown adjustments in G5 to make a refund of cash.** Also, refunds of cash are school, program, and award year-specific and refunds of cash should not be netted with a drawdown from another school, program, or award year.

If a school is required to refund cash as part of a liability assessed in an audit or program review, it must follow the instructions provided by the issuing office.

If a school is returning cash as a result of refunds made to a borrower's account, a corresponding downward disbursement adjustment must also be reported to the Common Origination and Disbursement (COD) System. For further information regarding making disbursement adjustments, refer to the November 21, 2011 Electronic Announcement posted on the IFAP Web site.

Direct Loan disbursements, disbursement adjustments, and refunds of cash, should be reported or submitted in whole dollar amounts only. The use of pennies in Direct Loan processing will impact a school's ability to successfully complete its monthly reconciliation because its Net Drawdowns may not match the Net Disbursements reported to the COD System.

For additional information on refunding cash via G5, refer to the G5 Web site or call the G5 Hotline at 888/336-8930 or 202/401-6238 for assistance.



**The Department discontinued Paper Check Processing of Direct Loan Refunds of Cash on January 1, 2015**

For additional information on refunding cash via G5, refer to the G5 website at <https://www.g5.gov/> or call the G5 Hotline at 888/336-8930 or 202/401-6238 for assistance.

For questions about adjusting student loan amounts, contact the COD School Relations Center at 800/848-0978 or 571/392-3737. You may also email [CODSupport@ed.gov](mailto:CODSupport@ed.gov).



### Amending a Fisap After the Close of an Award Year or After a School Has Submitted a Final FISAP for an Award Year

To amend its FISAP, a school logs in to eCB for the appropriate FISAP year and selects the appropriate Campus-Based program from the menu on the left. After the school has made the appropriate changes, updated the totals, and saved the data, the school selects the "Submit" link on the left. The phrase "Change Request" then appears below "Submit." The school must select "Change Request" in order to move to the next prompt. After the school selects "Change Request," the system will prompt the school to explain what changes the school is making and why. The school then must provide:

- the FISAP part, section number, and line number(s) on which the changes were made;
- the amount of the change; and
- a description of the conditions that require the revision (e.g., to comply with the requirements of 34 CFR 668.22).

After providing all of the required information, the school clicks the "Submit Button" and then affirms that it wants to "Continue to Submit."

The Campus-Based staff will evaluate the school's submission. If a school's request is denied, the Campus-Based staff will inform the school why its request was denied. If the school's request is approved, the Campus-Based staff will notify the school by sending an email to the individual on record as the school's financial aid director (in Field 19) that the school's FISAP has been unlocked and that the school has five days to submit the revised working copy as the final copy.

For assistance with amending a previous year's FISAP, schools should call the Campus-Based Call Center at:

**1-877-801-7168.**

## RETURNING FUNDS AFTER 240 DAYS

*In all cases, a school will have to request permission to make a change to the FISAP after December 15 following the close of the award year.*

If FSA Grant funds (other than FSEOG and Iraq and Afghanistan Service Grants) must be returned after 240 days, a school must:

- ♦ enter the student's revised Pell Grant award in COD;
- ♦ return the funds to the Department through G5, if applicable; and
- ♦ make the appropriate change to the FISAP (see sidebar).

Note that for Pell funds from a prior award year, a school may not use the funds for an eligible student in the current year.

If FSEOG funds must be returned after 240 days, a school must:

- ♦ enter the student's revised FSEOG award both in the individual student's account and the school's FSEOG ledger;
- ♦ either return the funds to the Department through G5 OR carry them forward to the next award year; and
- ♦ make the appropriate change to the FISAP (see sidebar).

If Perkins Loan funds from a prior award year must be returned after 240 days, a school must:

- ♦ reimburse its Perkins Loan fund;
- ♦ report those funds as income in Part III, Section A of the FISAP; and
- ♦ reduce the student's Perkins Loan balance and make an accounting entry to tie that reduction to the journal entry for the aforementioned reimbursement of its Perkins Loan fund.

The school should not make any changes to the student's Perkins promissory note.

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account. If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

**Clarification****RETURNING FUNDS THROUGH G5 FOR BOTH OPEN AND CLOSED AWARDS**

From time to time, a school will have to return funds from a previous award year. A school that needs to return funds from a previous award year logs into G5 as it would when requesting funds or returning funds from the current award year and selects **“Payments”** from the command bar near the top of the screen.

On the next page (the **Payments screen**), under **Refunds**, select **“Refunds Creation.”** On the **Create Refunds screen**, you will see two main sections—a section headed **“Your Open Awards,”** and a section headed **“Miscellaneous Awards.”**

There are four award periods:

1. performance period (59 months)
2. liquidation period (1 month)
3. suspension period (1 month)
4. closeout period

Awards that are in the performance, liquidation, and suspension periods will appear under **“Your Open Awards.”** When you are returning funds for an award that is open, always return the funds to the program from which the funds were drawn. For the award in question, in the column **“Refund Amount,”** enter the amount you want to return. In the next column (**Bank Account**) select from the drop down menu the bank account from which you want the funds drawn. When you have entered an amount for all the programs to which you wish to return funds, select **“Continue”** to navigate to the **Summary screen**. If you believe the information on the Summary screen is correct, select the **“Submit Refund Request(s)”** button to process the refund (return). If you’ve completed the process correctly, you’ll find yourself on the **Confirmation screen**. From the Confirmation screen, copy and save your Tracking Number. (If a refund has not been properly processed, an error message will be displayed at the top of the Summary screen and you can select the **“previous”** button at the bottom of the screen to go back and correct your data.)

Once an award year has closed (is no longer in the performance, liquidation, or suspension periods), a school will not be able to return funds to a specific program. However, a school can return funds even when a year is closed. To return funds from an award year that is closed a school uses the **“Miscellaneous Awards”** section at the bottom of the Create Refunds screen. (Note that because refunds made in the Miscellaneous Awards section are not program specific, if you have to return funds from multiple closed awards you can lump them together in one refund.)

**Note on Terminology**

Federal Student Aid uses the term **“return”** to describe the process of sending money back to the program from which the funds were drawn. G5 uses the term **“refund”** to describe that process.

**G5 Help**

Hours are Monday through Friday from 8:00 a.m. to 6:00 p.m., EST  
**Phone** 888-336-8930  
**TTY** 855-333-2807  
**Local** 202-245-6002  
**Email** edcaps.user@ed.gov

## Information required when returning loan funds to a servicer by check

If a school cannot use the electronic process preferred by the loan's servicer and must return the funds with a paper check, together with the check for the funds the school is returning, the school must include, **on school letterhead**, the following information:

1. The borrower's name,
2. The borrower's Social Security number,
3. The loan's unique CommonLine ID,
4. The type of loan (subsidized, unsubsidized, PLUS, etc.),
5. The period for which the loan was certified,
6. The scheduled and actual date of the disbursement,
7. The amount of the disbursement,
8. The amount being returned,
9. The reason the funds are being returned (cancellation, overpayment, withdrawal, or failed to begin class),
10. The school OPE ID, and
11. The name and phone number of the school official returning the funds.

To return funds that originated in what is now a closed award, on the **Create Refunds screen**, scroll down to the section headed **"Miscellaneous Awards."** In the column **"Refund Amount,"** enter the amount you want to return. In the next column (**"Bank Account"**) select from the drop down menu the account from which you want the funds drawn. In the column **"Refund Type,"** select from the drop down menu, the type of refund you wish to make. For example, if you are returning a Title IV Credit Balance that you have discovered was never delivered to the appropriate student, you would select **"Closed Awards."** Once you have completed your entries, select **"Continue"** to navigate to the **Summary screen**. If you believe information on the Summary screen is correct, select the **"Submit Refund Request(s)"** button to process the refund (return). If you've completed the process correctly, you'll find yourself on the **Confirmation screen**. From the Confirmation screen, copy and save your Tracking Number. (If a refund has not been properly processed, an error message will be displayed at the top of the Summary screen and you can select the "previous" button at the bottom of the screen to go back and correct your data.)

## RETURNING FUNDS FROM FFEL LOANS PURCHASED/SERVICED BY THE DEPARTMENT

The Department has purchased many Federal Family Education Loan (FFEL) Program loans from FFEL loan holders. The Department has contracted with several organizations to provide loan services on these purchased FFEL loans.

If a school is required to return any portion of a FFEL Program loan that has been purchased by the Department, the money would be returned to the appropriate federal servicer for that loan.

To identify the current servicer of an FSA loan, access NSLDS and select **"Aid."** Then identify the student and select **"Loan History."** Under Loan History, the current loan will be listed at the top. Use the field **"Servicer"** to identify the organization to which you will be returning funds. Click on the servicer name to access the NSLDS Organizational Contact List page. Additional contact information for the loan servicers is available on IFAP under the **"Help"** menu (Contact Information / Service Centers for Schools, / Loan Service Centers for Schools.)

You can find a global list of contact information for services on IFAP ([ifap.ed.gov](http://ifap.ed.gov)) under Electronic Announcements.